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TAGS: EMIN EPET ENRG EINV ETRD SF CH
SUBJECT: China Sustains Interest in African Minerals and Energy Resources

REF: Pretoria 393

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¶1. (SBU) Summary. The African Mining Indaba in Cape Town February 9-12 provided verve for discussion on China's interest in African resources (Reftel). The consensus view was that China is taking a long-term perspective on its resource investments in Africa, but driving harder bargains in the global downturn. China has committed to investment and building infrastructure in Africa in exchange for access to resources, particularly in resource-rich states like South Africa, Namibia, Angola, Nigeria, and the Democratic Republic of Congo (DRC). Despite a decline in many export sectors, China remains the "locomotive of resource demand" for its own infrastructure build, according to many analysts at the Indaba. China has recently established a multi-billion dollar China-Africa Development Fund and an associated office in South Africa to facilitate funding of resource projects. Many South Africans are concerned that the government is being excessively influenced by China. End Summary.

## China's Industrial Growth Needs Raw Materials

¶2. (SBU) Chinese economic growth has declined substantially from the heady 9-12 percent per year of the past five years to the current 6.5 percent, according to analysts. China remains a "locomotive of resource demand" despite plunging exports, factory closures, and many areas of production decline, according to The Beijing Axis Group Managing Director Kobus van der Wath, an advisor to South African capital and mining companies in China. There would be a painful economic adjustment in the near term, but the migration of people to the cities would help maintain China's growth for the medium and long term, Van der Wath said at the recent Canadian mining conference PDAC 2009.

¶3. (SBU) The Beijing Axis forecasts a Chinese GDP growth of 5.6 percent in 2009 and 7.5 percent in 2010, but acknowledged the

downside risk to these estimates. While China is not going to unravel, Van der Wath said, it will grow at a slower rate. He noted that China had surpassed the U.S. in many categories and was now the world's largest consumer of commodities such as zinc, nickel, copper, and aluminum. The construction industry is being driven by migration from the population-dense east to cities in the central and western regions of China. Van der Wath cited massive investment growth and said resource-rich parts of Africa, Australia, and Canada would have the highest likelihood of attracting Chinese capital. Observers believe that China is also restocking depleted stockpiles of strategic construction metals.

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African Resources for China
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¶4. (SBU) Van der Wath and other analysts said the Chinese are in Africa for the "long haul" and plan major investment in the
QAfrica for the "long haul" and plan major investment in the continent's minerals and energy sectors. Africa is credited with hosting some 30 percent of the world's mineral resources and these have attracted Chinese interest. These include: Niger and Namibian uranium; Angolan and DRC oil; DRC and Zambian copper and cobalt; South African platinum group metals (PGM), ferro-metals, and ferro-alloys; and West-African bauxite deposits (aluminium ore). Initially, China targeted undeveloped ore bodies in the developing world, particularly in Africa. This has been facilitated by the episodic abandonment of Africa as a minerals investment destination by major Western countries. Chinese "investment", by way of grants, repayable loans, trade concessions, and infrastructure build, using Chinese engineers and labor, is being exchanged for access to and ownership of resources.



¶5. (SBU) Here is a partial list of China's global resource and other investments, many in Africa, gleaned from a number of media sources and contacts:
-- $9 billion mining and infrastructure loan to the DRC in return for the supply of 10 million tons of copper and two million tons of cobalt over a 15 year period;
-- Zijin Mining Group bought a 20 percent stake in the $100 million Blue Ridge platinum mine and the Sheba Ridge platinum project on South Africa's Bushveld Complex;
-- the Oppenheimer family sold a third of its stake in Anglo American to China Vision Resources for $550-600 million in November 2006;
-- $1.5 billion for a power plant and a multi-facility economic zone on the Zambian copperbelt;
-- Chinalco's proposed $19.5 million investment in Australian Rio Tinto;
-- Minmetals' purchase of shares in Chile's Escondida copper mine and Australia's Hammersley iron ore and Oz Minerals;
-- Industrial and Commercial Bank of China's (ICBC) $5.5 billion purchase of 20 percent in South Africa's Standard Bank in 2007;
-- $5 billion China-Africa Development Fund to facilitate funding of resource projects with an associated office in South Africa announced in March 2009;
-- increasing imports of South African iron, manganese, and chrome ores despite the government's policy of local beneficiation.
(Note: Australian ventures are subject to approval by the Australian Foreign Investment Review Board. On April 14, Oz Minerals signed a $1.2 billion asset sales agreement with China's Minmetals, but excluded assets located close to a military test area. End Note.)

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South Africa's Potential
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¶6. (SBU) South Africa is likely to remain of interest to China. South Africa still has significant known deposits of gold, PGMs, ferro-metals, diamonds, and other minerals, and the potential for further discoveries, given new exploration and mining technology, despite being a mature mining country. South Africa is the dominant economic force on the continent and offers a developed-world

"gateway" to the rest of Africa. It is virtually self-sufficient in food supply, has a well-developed infrastructure and industrial capacity, significant skills (albeit a shortage of sufficient skills), accounts for some 30-40 percent of the continent's GDP, and produces 50 percent of its generated electricity. South Africa has one-third of Nigeria's population but nearly five times its power-generating capacity.

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Bargain Basement Prices Benefit Cash-Rich China
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¶7. (SBU) The mineral commodity melt-down of September 2008, in which the value of mining stocks and commodities declined on average by 50-60 percent, has presented Chinese companies with a mssive buying opportunity and the potential to develop mines at a much reduced cost for input materials. South Africa's and former Anglo Qreduced cost for input materials. South Africa's and former Anglo American's Scenario Planner Clem Sunter, at a Pretoria University Business School presentation in January 2008, compared China's resource strategy with that of Japan's in the 1960-80's at the height of its industrial expansion. China's demand for raw materials to produce export goods has declined in the wake of faltering consumer demand in Western countries. However, growth of its domestic infrastructure for industrialization remains a priority for the government for jobs and social stability, according to Beijing Axis' Van der Wath. He said concern for the consequences of an economic slow-down and possible massive unemployment has ensured that jobs lost in the export sector are, wherever possible, replaced



by jobs related to infrastructure build. According to UK-based company Control Risks, the Chinese government has allocated more than $1 billion for this purpose.

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China Needs Africa's Strategic Natural Resources
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¶8. (SBU) The consensus analyst and press view is that China's interest in African resources is sustained, but China may be driving harder bargains and avoiding some of the highest risk countries in light of the commodity downturn. South African Frontier Advisory CEO Dr. Martyn Davies said this interest was the result of China's demand for resources and Africa's ability to supply such commodities, speaking during his presentation at the Mining Indaba. According to Davies, Africa was dependent on China's demand for natural resources to sustain its economic growth, but equally, China's economic growth was dependent on Africa's ability to supply such resources. China is Africa's and South Africa's second-biggest trading partner, behind the U.S. and Germany, respectively, but South Africa's trade balance lies heavily in China's favor. Natural resources comprised 80 percent and 88 percent of African and South African total exports to China, respectively. Owing to this reliance on African commodities, Davies said Beijing would continue investing in Africa, despite the high investment risk associated with many countries on the continent. This is evidenced by the fact that China plans to spend $1 billion in Africa on commodity and industrial projects by October 2009.

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Comment
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¶9. (SBU) Discussions with several representatives of South African mineral producers and fabricators indicate the extent to which they are dependent on a revival of Chinese demand. These discussions reveal that China is prepared to use this as a leverage to extract concessions from both companies and governments. The SAG has agreed not to apply Article 16 of the WTO protocol dealing with anti-dumping duties and safeguard measures in trade with China. This has left South African companies with little recourse to counter unfair trade practices, except in the case of government subsidies on imports. The Chinese government has also shown willingness to "lean" on South African-based companies or their international head offices if they seek protection from unfair trade

practices, as evidenced by the withdrawal by Swiss company Franke Kitchen Systems of their countervailing action against subsidised Chinese imports into South Africa.  A recent example of Chinese influence was the SAG's decision not to grant a visa to the Dalai Lama to attend a peace conference in South Africa, stating that this would take media focus off the upcoming 2010 Soccer World Cup.  Many South Africans are criticizing the government for being too subject to Chinese influence, including the Minister of Health's recent
Qto Chinese influence, including the Minister of Health's recent public criticism of the decision not to grant a visa to the Dalai Lama.
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